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No. 97-0331

In The

Supreme Court of the United States

October Term, 1996

BAKER HUGHES INCORPORATED, HUGHES TOOL COMPANY, INC. AND CALDIVE INTERNATIONAL, INC., et al.,

Petitioners,

vs.

JIM ARNOLD CORPORATION, EARL E. ENNIS, and JAMES F. ARNOLD,

Respondents.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

RESPONDENTS' BRIEF IN OPPOSITION

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PARTIES TO THE PROCEEDING

The petition accurately lists the parties to the proceeding.

Pursuant to Rule 29.6 of the Rules of this Court, Respondents Earl E. Ennis, and James F. Arnold are individuals and the Jim Arnold Corporation has no subsidiaries other than wholly owned subsidiaries.

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BRIEF IN OPPOSITION

Respondents, Jim Arnold Corporation, Earl E. Ennis, and James F. Arnold, file this brief in opposition and respectfully request the Court deny the petition for writ of certiorari.

PROCEDURAL HISTORY

This litigation stems from Petitioners' wrongful activity, inter alia: fraud, active misrepresentation and concealment of their manufacture and sale of millions of dollars worth of subsea mechanical devices which were covered by patents issued to Respondent James F. Arnold. The Petitioners breached their agreement, failed to account for such sales, misrepresented that no sales had been made, and defrauded Respondents of their royalty payments due under various agreements involving the assignment of patents for these devices.

Defendant-Petitioners removed the litigation from state court to the United States District Court for the Southern District Of Texas, Cause No. 93-3117. On an appeal from a summary judgment motion, the Federal Circuit remanded the case to state court because Petitioners were unable to demonstrate the existence of federal jurisdiction stating 'there can be no doubt that the case brought by Arnold did not "arise under the patent laws".' (App.A, p. A26).

On March 21, 1997, the Federal Circuit decided to VACATE and REMAND after having considered the issues over a one year period (following an oral hearing

on February 7, 1996 and Order for supplemental briefing issued on February 12, 1996.) The Court's opinion was published as *Jim Arnold Corp. v. Hydrotech Systems, Inc.*, 109 F.3d 1567 (Fed.Cir. 1997). The Federal Circuit also DENIED and DECLINED Petitioner's Petition for Rehearing and Suggestion for Rehearing In Banc on May 22, 1997.

STATEMENT OF THE CASE

As the removing party, the Petitioners failed to meet their burden of showing the existence of federal subject matter jurisdiction over the controversy. Federal subject matter jurisdiction is governed by what has been presented on the face of Respondents' complaint under the "well-pleaded complaint rule". The petition clearly states that Plaintiff Arnold assigned all right, title and interest in and to such innovation or improvements on his inventions and patents. (A541) When seeking summary judgment, Petitioners previously asserted: "all of Plaintiffs' claims arise out of Hughes' alleged breach of the 1980 Agreement." (A562, A563) The Petitioners' own contentions characterize this as a suit for breach of contract agreement and Petitioners should not be allowed to now contradict their previous position. Claims arising out of contract breach and fraud have proper jurisdiction in state court.

REASONS FOR DENYING THE WRIT

I. Contract disputes about patent assignments do not act to create federal jurisdiction

The "well-pleaded complaint rule" governs subject matter jurisdiction for removal purposes by confining the determination of jurisdiction to what is presented on the face of the plaintiffs' complaint. *Caterpillar, Inc. v. Williams*, 482 U.S. 386, 398-399 (1987). The Federal Circuit stated, "To invoke the jurisdiction of a federal court under § 1338, it is necessary that plaintiff allege facts that demonstrate that he, and not the defendant, owns the patent rights on which the infringement suit is premised" (App.A, p. A10) *citing* 28 U.S.C. § 1338. The Federal Circuit determined that Petitioners' complaint did not raise an adequate patent claim in the midst of a contract based lawsuit to create federal jurisdiction. (App.A, p. A26).

Kunkel v. Topmaster Inter., Inc., 906 F.2d 693 (Fed.Cir. 1990) makes it clear that a Plaintiff must assert a claim of current ownership of a patent to obtain federal subject matter jurisdiction under the patent laws. Plaintiffs made no claim of current ownership in their original complaint. On the contrary, PLAINTIFFS' ORIGINAL PETITION states that "Plaintiff Arnold assigned all right, title and interest in and to such innovation or improvements on his inventions and patents" (A541). Petitioners recognize that a plain reading of the PLAINTIFFS' ORIGINAL PETITION shows that Arnold assigned his patent rights in 1980. (A562, A563). Petitioners have failed to demonstrate that plaintiffs plead current ownership of patents, and thus a cause of action under patent law, and have

therefore failed to meet their burden in establishing federal jurisdiction.

Petitioners mis-apply Texas law to contend that recorded patent assignment agreements could be unilaterally rescinded without judicial intervention. Petitioners incorrectly argue that Respondents' pleading reestablished current patent ownership back to the inventor, Arnold, sufficient to invoke federal jurisdiction under *Kunkel*.

To the contrary, Respondents pleading merely sought a judicial determination to have the various assignment agreements rescinded and reassigned. (A555, A526, A523, A522) The Federal Circuit understood from the original complaint that Respondents were not claiming current ownership of the patents as required by 28 U.S.C. § 1338 (App.A, p. A10) and, therefore, held that federal subject matter jurisdiction did not exist.

II. Petitioners create an illusion concerning conflict in application of Texas law.

Texas law does not recognize the type of unilateral rescission of patent assignments that Petitioner contends could allow Respondents to regain title to the patents without aid of a court. A party cannot unilaterally terminate patent assignment agreements in Texas by proclamation 'the contract is rescinded' ipse dixit.

The Federal Circuit concluded that plaintiff's suit is premised on a state-law based set of claims arising out of alleged breaches of the assignment agreements and that the petition repeatedly refers to the need by the trial

court to rescind the assignment agreement. (App.A, p. A21) The Court stated "As far as Texas law generally is concerned, we have found no authority to support the proposition that, following a breach of the assignments, the plaintiff could unilaterally declare the agreements null and void and thereby reobtain ownership of the patents that are covered by the assignments" (App.A, p. A25)

In *Comer v. Byars*, 89 S.W. 80 (Tex.Civ.App. 1905) error ref'd., a Texas court reviewed the compliance of parties under a patent assignment agreement and made a judicial determination concerning whether a party was entitled to rescission and cancellation of the conveyance as a remedy for the alleged breach. Texas case law thus deals with rescission of patent assignments as a remedy available through judicial determination – not as a remedy one of the litigants could have unilaterally proclaimed.

In Texas, a trial court *may* grant unilateral rescission of a contract if a party shows that a breach had occurred in a material part of the contract. *Humphrey v. Camelot Retirement Community*, 893 S.W.2d 55, 59 (Tex.App. – Corpus Christi 1994); citing: *Costley v. State Farm Fire & Casualty Co.*, 894 S.W.2d 380 (Tex.App. – Amarillo 1990, writ denied); *Ennis v. Interstate Distribs., Inc.*, 598 S.W.2d 903, 906 (Tex.App. – Dallas 1980, no writ); see also *Allen v. Allen*, 751 S.W.2d 567, 575 (Tex.App. – Houston [14th Dist.] 1988, writ denied.) However, the decision regarding granting of rescission is a judicial remedy which lies within the trial court's sound discretion. *Id.* at 59.

Unilateral rescission for breach of contract is not generally available in Texas absent the agreement of the

parties or expressed provisions of the contract and the aid of the court must be obtained when terminating a contract in Texas "(c)onditions which may result in forfeitures or in the termination of contracts are not favored by the law and will not be decreed unless the contract contains clear and specific provisions to that effect." *Dobson v. Dobson*, 594 S.W.2d 177, 180 (Tex.Civ.App. – Houston [1st Dist.] 1980); citing: *Hearne v. Bradshaw*, 312 S.W.2d 948 (Tex. 1958).

Petitioners provide no Texas case law as authority to support their contention that a party may unilaterally rescind a patent assignment without judicial intervention. In support of their argument, Petitioners cite to *Allen v. Allen*, 751 S.W.2d 567, 573, 575 (Tex.App. – Houston [14th Dist.] 1988, writ denied)(dispute concerning ownership of mineral right royalty interests following a divorce settlement – where the court held that there was insufficient evidence of unilateral rescission); *Cundiff v. McLean & Miller*, 40 Tex. 368, 371 (Tex. 1874) (a promissory note collection dispute concerning credit for payments made); *Ross v. McClelland*, 281 S.W.2d 773, 775 (Tex.Civ.App. – Fort Worth 1955, writ ref'd, n.r.e.) (Action for recovery of money deposited after sellers breached contract for sale of cattle).

Petitioners do not demonstrate how this litigation falls within the parameters and factual boundaries of the case law they cite. Petitioners' argument concerning unilateral rescission fails because the parties neither acted to restore each other to their former position nor acted to restore the benefits received under the assignment agreements. *Allen v. Allen*, 751 S.W.2d at 573.

III. Petitioners' position on appeal is contrary to their previous arguments.

Petitioners now contend that unilateral rescission of assignment is a basis of patent ownership sufficient to create federal jurisdiction. However, Petitioners previously took contrary positions in the litigation, contending that "Plaintiffs seek rescission . . . " (A555) and that plaintiffs' claims for patent infringement were without merit because defendants could not have infringed patents that were expressly assigned to them. (A553) It is clear from the Petitioners' own argument that Respondents did not unilaterally rescind the contract but instead sought an equitable determination of rescission from the court.

Furthermore, Petitioners now contend that federal jurisdiction exists based on patent disputes, in contrast to Petitioners' previous assertions in their summary judgment brief that all of plaintiffs' claims arise out of alleged breach of contract (A562, A563), rather than a patent dispute. (A553)

Respondents object to Petitioners bringing new argument on appeal which contradicts their previous position in the litigation.

IV. Petitioners' argument would disrupt uniformity of federal subject matter jurisdiction

Congress conferred exclusive jurisdiction of all patent appeals on the Court of Appeals for the Federal Circuit. 28 U.S.C. § 1295(a)(1). By design, the jurisdiction of federal courts is limited and they have no inherent

subject matter jurisdiction. *Oliver v. Trunkline Gas Co.*, 789 F.2d 341, 343 (5th Cir. 1986). An initial presumption arises that federal courts lack subject matter jurisdiction to resolve a particular suit. *Owen Equip. & Erection Co. v. Kroger*, 437 U.S. 365, 374 (1978).

In remanding, the Federal Circuit determined that federal jurisdiction does not exist in this case and the litigation belongs in state court. (App.A, p. A21, p. A26) When a suit is filed seeking a declaration of ownership of a patent it does not fall within the patent laws. *Vink v. Hendrikus Johannes Schijf Rolkan N.V.*, 839 F.2d 676, 678 (Fed.Cir. 1988) citing: *Luckett v. Delpark, Inc.*, 46 S.Ct. 397, 399, 270 U.S. 496 (1926). Petitioners' argument and misapplication of state law regarding unilateral rescission of patent assignments needlessly confuses and disrupts the Federal Circuit's requirement of patent ownership as a basis for federal jurisdiction.

The Federal Circuit's decision is consistent with prior decisions requiring that a plaintiff have current patent ownership to maintain an action for infringement. *GAIA Technologies v. Reconversion Tech, Inc.*, 93 F.3d 774 (Fed.Cir. 1996). Here, Respondents have not claimed current ownership of patent rights as required to invoke federal jurisdiction under *Kunkel v. Topmaster, Intern., Inc.*, 906 F.2d 693, 695 (Fed.Cir. 1990); *Arachnid, Inc. v. Merit Industries, Inc.*, 939 F.2d 1574 (Fed.Cir. 1991).

The Petitioners erroneously cite to *Vink* to bolster their argument in support of federal jurisdiction. In contrast, the *Vink* complaint alleged that plaintiff "owned the patent" and therefore on its face met the first prong of

current patent ownership under the *Kunkel* test. *Vink* 839 F.2d at 678.

Petitioners' argument would act to reverse the presumption against federal subject matter jurisdiction. Under Petitioners' proposal, federal courts would be required to look beyond matters presented in a complaint and seek out and consider all possible scenarios before denial of federal subject matter jurisdiction.

Furthermore, if Petitioners' argument were valid, then inventors (without either a judicial determination or the agreement of assignees) could unilaterally declare a patent assignment rescinded and undermine the purpose of filing patent assignments with the PTO to provide notice to the world of ownership pursuant to 35 U.S.C. § 261.

CONCLUSION

For the foregoing reasons, the writ of certiorari should be denied

DATED this 19th day of September, 1997.

Respectfully Submitted,
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